

CONFIDENTIAL

PTQ1558

RELEASED IN PART
B1, 1.4(D), B3, INAPAGE 01 CARACA 02859 01 OF 04 221234Z
ACTION ARA-01

INFO	LOG-00	ACDA-08	ACDE-00	AID-00	ACQ-01	CEA-01	COME-00
	CTME-00	DINT-00	DODE-00	DOEE-00	SRPP-00	DS-00	EB-00
	EXIM-01	E-00	FRB-00	H-01	IM-01	TEDE-00	INR-00
	ITC-01	LAB-01	L-01	ADS-00	NSAE-00	NSCE-00	OES-01
	OMB-01	OPIC-01	PA-00	PM-00	PRS-00	P-00	SP-00
	SSO-00	STR-00	TRSE-00	T-00	PMB-00	DSCC-00	DRL-04
	G-00	NFAT-00	SAS-00	/024W			

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R 221228Z SEP 98
FM AMEMBASSY CARACAS
TO SECSTATE WASHDC 1772
INFO AMEMBASSY BOGOTA
AMEMBASSY BRASILIA
AMEMBASSY PORT OF SPAIN
AMEMBASSY GEORGETOWN
AMEMBASSY LIMA
AMEMBASSY QUITO
USCINCSO MIAMI FL
DIA WASHDC
CIA WASHDC
USIA WASHDC 1788

C O N F I D E N T I A L SECTION 01 OF 04 CARACAS 002859

E.O. 12958: DECL: 9/18/08
TAGS: PGOV, PREL, ECON, EPET, VE
SUBJECT: TAKING ANOTHER STEP IN OUR DIALOGUE WITH HUGO CHAVEZ
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CLASSIFIED BY THOMAS A. SHANNON, POLITICAL COUNSELOR. REASON: 1.5
(D).

SUMMARY

1. (C) VENEZUELA'S RELATIONSHIP WITH THE U.S. WOULD BE A "TOP
PRIORITY" OF A CHAVEZ GOVERNMENT, [REDACTED]
TOLD US DURING A SEPTEMBER 17 MEETING. [REDACTED]

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[REDACTED] COMPLAINED THAT CHAVEZ'S

UNITED STATES DEPARTMENT OF STATE
REVIEW AUTHORITY: ALAN H FLANIGAN
CLASSIFICATION: CONFIDENTIAL REASON: 1.4(D)
DECLASSIFY AFTER: 21 SEP 2018
DATE/CASE ID: 10 JUL 2007 200504156

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MESSAGE REGARDING DEMOCRACY AND ECONOMICS HAD BEEN DISTORTED BY POLITICAL ENEMIES AND THE PRESS, AND LOOKED FORWARD TO SETTING THE RECORD STRAIGHT IN AN UPCOMING MEETING WITH AMBASSADOR. [REDACTED] DESCRIBED "CHAVISMO" NOT AS A POLITICAL EVENT BUT AS A "SOCIAL MOVEMENT" WHICH IS CHANNELING THROUGH THE ELECTORAL PROCESS THE RAGE, FRUSTRATION, AND ANXIETY CAUSED BY VENEZUELA'S ECONOMIC CRISIS. WITHOUT CHAVEZ, [REDACTED] VENEZUELA WOULD EXPLODE INTO CLASS WARFARE. IF CHAVEZ WERE ELECTED, [REDACTED] SAID, HE WOULD CONVOKE A CONSTITUTIONAL ASSEMBLY AND TAKE DRAMATIC STEPS TO ATTACK CORRUPTION AND TO RESTRUCTURE THE STATE TO MAKE IT "SMALLER, MORE EFFICIENT, AND AT THE SERVICE OF THE PEOPLE."

B1

[REDACTED] THAT THE PRESIDENT HAS THE AUTHORITY TO CONVOKE A CONSTITUTIONAL ASSEMBLY-- [REDACTED]

[REDACTED] --AND MADE CLEAR THAT CHAVEZ WOULD NOT ALLOW AN "EXHAUSTED, CORRUPT PARTY STRUCTURE IN THE CONGRESS" TO FRUSTRATE HIS PLANS TO ADDRESS THE PRESSING NEEDS OF THE VENEZUELAN PEOPLE. END SUMMARY.

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MAKING OUR POLITICAL POINTS [REDACTED]

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2. (C) POLCOUNS AND ECONCOUNS MET SEPTEMBER 18 WITH KEY CHAVEZ [REDACTED] THIS WAS OUR FIRST MEETING WITH [REDACTED] ANOTHER STEP IN OUR EFFORT TO BUILD A SUBSTANTIVE DIALOGUE WITH THE CHAVEZ CAMP. ALSO PRESENT AT THE MEETING WAS [REDACTED]
[REDACTED]

3. (C) WE TOLD [REDACTED] THE AMBASSADOR, WHO HAD JUST RETURNED FROM CONSULTATIONS, WOULD BE MEETING WITH ALL PRESIDENTIAL CANDIDATES, AND LOOKED FORWARD TO MEETING CHAVEZ. WE THEN MADE THE FOLLOWING POINTS [REDACTED]

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-- WE WOULD LIKE TO DEVELOP A SUBSTANTIVE DIALOGUE WITH CHAVEZ AND HIS CAMP, RECOGNIZING THAT, WIN OR LOSE, CHAVEZ WOULD BE A MAJOR POLITICAL PLAYER FOLLOWING THE ELECTIONS.

-- THIS DIALOGUE WOULD FOCUS ON OUR PRIMARY INTERESTS IN THE REGION: CONSOLIDATION OF DEMOCRACY, THE DEEPENING OF ECONOMIC REFORM, COUNTERNARCOTICS EFFORTS, AND THE CONTINUING AND RELIABLE SUPPLY OF PETROLEUM AND REFINED PRODUCTS TO THE U.S.

-- IN REGARD TO CONSOLIDATION OF DEMOCRACY, WE NOTED OUTSTANDING DOUBTS ABOUT CHAVEZ'S COMMITMENT TO DEMOCRATIC, CONSTITUTIONAL

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GOVERNMENT. WE INDICATED THAT IT IS IMPERATIVE FOR CHAVEZ TO
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ADDRESS THESE DOUBTS, ESPECIALLY IN THE CONTEXT OF HIS CALL FOR A
CONSTITUTIONAL ASSEMBLY. WE NOTED THAT A LEGAL, CONSTITUTIONAL
PROCESS EXISTS TO CALL A CONSTITUTIONAL ASSEMBLY.

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MAKING OUR ECONOMIC POINTS

4. (C) IN REGARD TO OUR ECONOMIC REFORM AND ENERGY INTERESTS, WE
SAID THAT UNCERTAINTY SURROUNDING THE ELECTORAL PROCESS WAS
EXACERBATING EXISTING INTERNAL AND EXTERNAL PROBLEMS AFFECTING
VENEZUELA'S ECONOMY. IT WAS INCUMBENT ON ALL CANDIDATES TO ADDRESS

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ACTION ARA-01

INFO	LOG-00	ACDA-08	ACDE-00	AID-00	ACQ-01	CEA-01	COME-00
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	ITC-01	LAB-01	L-01	ADS-00	NSAE-00	NSCE-00	OES-01
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	SSO-00	STR-00	TRSE-00	T-00	PMB-00	DSCC-00	DRL-04
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R 221228Z SEP 98
FM AMEMBASSY CARACAS
TO SECSTATE WASHDC 1773
INFO AMEMBASSY BOGOTA

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AMEMBASSY BRASILIA
AMEMBASSY PORT OF SPAIN
AMEMBASSY GEORGETOWN
AMEMBASSY LIMA
AMEMBASSY QUITO
USCINCSO MIAMI FL
DIA WASHDC
CIA WASHDC
USIA WASHDC 1789

C O N F I D E N T I A L SECTION 02 OF 04 CARACAS 002859

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ECONOMIC ISSUES IN A RESPONSIBLE MANNER. WE URGED [REDACTED] B1
RECOGNIZE THAT POPULIST ECONOMIC RHETORIC, HOWEVER USEFUL DURING A
CAMPAIGN, COULD PLACE ADDITIONAL PRESSURE ON DOMESTIC INTEREST
RATES, ERODE INTERNATIONAL RESERVES, AND FORCE A MAXIDEVALUATION
BEFORE THE NEW GOVERNMENT HAD A CHANCE TO PREPARE AN ACCOMPANYING
ECONOMIC PROGRAM. THIS WOULD LEAVE THE NEW GOVERNMENT WITH A
CRISIS OF CONFIDENCE AND LITTLE OR NO ROOM FOR MANEUVER. AS A
FRONT RUNNER IN THE POLLS, THIS SHOULD BE OF SPECIAL CONCERN TO
CHAVEZ. WE THEN SAID:

-- TALK ABOUT RENOUNCING VENEZUELA'S FOREIGN DEBT WILL INCREASE THE
COST OF VENEZUELA'S FOREIGN BORROWING -- AS IN THE CASE OF THE
GOV'S J.P. MORGAN-BROKERED MOST RECENT USD 500 MILLION, 20-YEAR
BOND OFFERING ON AUGUST 6, WHEN IT PAID 824 BASIS POINTS OVER THE
COMPARABLE U.S. TREASURY RATE -- OR CLOSE VENEZUELA'S ACCESS TO
FOREIGN BORROWING ALTOGETHER.

-- COMMENTS ABOUT THE REEXAMINATION OF FOREIGN CONTRACTS IN
VENEZUELA'S OIL OPENING WILL FRIGHTEN AWAY FOREIGN INVESTMENT AT A
TIME WHEN THE GOV DOES NOT HAVE THE CAPITAL TO FINANCE LARGE
DEVELOPMENT PROJECTS. THE LOSS OF THIS INVESTMENT WILL RESULT IN
LOWER ECONOMIC GROWTH AND HIGHER UNEMPLOYMENT.

-- THE THREATENED SALE OF STATE OIL COMPANY PDVSA'S U.S. SUBSIDIARY
CITGO WILL UNDERMINE VENEZUELA'S ABILITY TO MARKET ITS HEAVY AND
SOUR CRUDE IN A MARKET THAT IS ALREADY GLUTTED WITH EXCESS SUPPLY.
CITGO MAY HAVE A LOWER RETURN ON ASSETS THAN PDVSA'S OTHER
OPERATIONS, BUT IT IS AN ESSENTIAL PART OF PDVSA'S STRATEGIC PLAN
TO GUARANTEE THE SALE OF ITS LESS ATTRACTIVE CRUDES IN THE U.S.
MARKET.

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-- THE FAILED PRIVATIZATION OF THE UNPROFITABLE STATE ALUMINUM SECTOR IS NO CAUSE FOR REJOICING. THE INDUSTRY IS BEING SUBSIDIZED AT THE RATE OF USD 300 MILLION PER YEAR AND THIS MONEY COULD BE PUT TO BETTER USE ELSEWHERE. THE LONGER THE GOV WAITS TO PRIVATIZE THE SECTOR, THE MORE IT WILL DETERIORATE, AND THE LESS IT WILL BE WORTH TO FOREIGN INVESTORS.

[REDACTED] RESPONDS TO POLITICAL CONCERNS

5. (C) [REDACTED] VENEZUELA'S RELATIONS WITH THE U.S. WOULD BE A "TOP PRIORITY" OF A CHAVEZ GOVERNMENT. HE NOTED, "THE U.S. IS OUR LARGEST COMMERCIAL PARTNER AND THE PRIMARY PURCHASER OF OUR MAJOR EXPORT--OIL. WE CANNOT SURVIVE WITHOUT A GOOD RELATIONSHIP WITH THE U.S."

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6. (C) [REDACTED]

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7. (C) THE AMBASSADOR'S DECISION TO MEET WITH ALL PRESIDENTIAL CANDIDATES, INCLUDING CHAVEZ, [REDACTED] "IS GOOD NEWS." HE NOTED, "CHAVEZ WANTS THE MEETING AND WE WILL DO WHAT IS NECESSARY
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TO MAKE IT HAPPEN." HE COMPLAINED THAT CHAVEZ'S MESSAGE HAD BEEN DISTORTED BY HIS POLITICAL ENEMIES AND THE PRESS, AND THAT A MEETING WITH THE AMBASSADOR WOULD ALLOW CHAVEZ TO PRESENT HIS IDEAS DIRECTLY.

8. (C) [REDACTED] MADE THE FOLLOWING POINTS:

-- "CHAVISMO" IS NOT A POLITICAL EVENT BUT A SOCIAL MOVEMENT. [REDACTED] SAID THE OLD PARTY-DOMINATED POLITICAL SYSTEM IS "CORRUPT AND EXHAUSTED, LACKING EVEN THE ENERGY TO DEFEND ITSELF." HE SAID, "SOMETHING NEW MUST BE PUT IN ITS PLACE." CHAVEZ REPRESENTS A DRAMATIC AND MUCH-DESIRED CHANGE. [REDACTED] "YOU MUST UNDERSTAND THIS. NO MATTER WHAT HAPPENS TO CHAVEZ, CHAVISMO CANNOT BE STOPPED."

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-- CHAVEZ'S DECISION TO PARTICIPATE IN THE ELECTIONS CREATED A DEMOCRATIC MEANS TO CHANNEL THIS DESIRE FOR CHANGE. [REDACTED] ASSERTED, "IF IT WERE NOT FOR CHAVEZ, AND THE HOPE HE PROVIDES THAT CHANGE CAN HAPPEN THROUGH THE DEMOCRATIC PROCESS, THIS COUNTRY WOULD EXPLODE INTO CLASS WARFARE."

B1

-- [REDACTED] "HANDFUL OF PARTY LEADERS" OF "PLUNDERING" THE COUNTRY AND DENYING ITS RICHES TO THE PEOPLE. HE SAID CHAVEZ WOULD MAKE FIGHTING SUCH CORRUPTION THE CENTERPIECE OF HIS

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R 221228Z SEP 98
FM AMEMBASSY CARACAS
TO SECSTATE WASHDC 1774
INFO AMEMBASSY BOGOTA
AMEMBASSY BRASILIA
AMEMBASSY PORT OF SPAIN
AMEMBASSY GEORGETOWN
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AMEMBASSY QUITO
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C O N F I D E N T I A L SECTION 03 OF 04 CARACAS 002859

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GOVERNMENT. [REDACTED] THAT CHAVEZ WOULD REFORM THE STATE TO MAKE IT "SMALLER, MORE EFFICIENT, AND AT THE SERVICE OF THE PEOPLE."

B1

-- THE "CONSTITUYENTE" OR CONSTITUTIONAL ASSEMBLY WOULD BE THE MEANS BY WHICH CHAVEZ TRANSFORMS THE STATE. [REDACTED] CURRENT CONSTITUTION A "MANIFESTATION OF THE CORRUPT PARTY POLITICS WHICH TOOK POWER IN THIS COUNTRY." HE DESCRIBED THE CONSTITUTION AS DESIGNED TO BENEFIT TRADITIONAL PARTIES AND FRUSTRATE THE WILL OF THE PEOPLE. HE ARGUED THAT THE PRESIDENT, AFTER CONSULTING WITH THE PEOPLE THROUGH A REFERENDUM, HAS THE CONSTITUTIONAL AUTHORITY TO CONVOKE A CONSTITUTIONAL ASSEMBLY. HE NOTED THAT AMENDING THE CONSTITUTION TO PERMIT THE CONVOCAION OF A CONSTITUTIONAL ASSEMBLY WOULD REQUIRE THE TWO-THIRDS APPROVAL OF BOTH HOUSES OF CONGRESS, A DIFFICULT HURDLE TO CLEAR. HE SAID CHAVEZ WOULD NOT PERMIT THE CONGRESS TO "STAND IN THE WAY OF THE PEOPLE'S DESIRE."

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[REDACTED] ECONOMIC CONCERNS

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9. (C) [REDACTED] A READY ANSWER FOR EACH OF OUR ECONOMIC CONCERNS. CHAVEZ DID NOT WANT TO DESTROY THE ECONOMY. CHAVEZ HAD GOTTEN CARRIED AWAY AT THE BEGINNING OF THE CAMPAIGN IN SOME CASES AND HIS COMMENTS HAD BEEN DISTORTED BY THE MEDIA IN OTHERS.

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[REDACTED] CHAVEZ HAD MODERATED MUCH OF HIS CAMPAIGN RHETORIC, RECOGNIZING THAT CONTINUING ECONOMIC TURMOIL WOULD DEPRIVE A CHAVEZ GOVERNMENT OF THE ECONOMIC MEANS TO GOVERN. IN AN EFFORT TO SHOW THE DEVELOPMENT OF CHAVEZ' ECONOMIC THOUGHT, [REDACTED]

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-- THE BIGGEST HURDLES TO ECONOMIC DEVELOPMENT IN VENEZUELA ARE CORRUPTION AND JUDICIAL INSECURITY. [REDACTED] CHAVEZ'S PRIMARY GOAL IN REGARD TO THE STATE IS TO STAMP OUT CORRUPTION AND TO CREATE AN HONEST, EFFICIENT JUDICIARY, THEREBY CREATING AN ATTRACTIVE AND PROSPEROUS INVESTMENT CLIMATE.

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-- CHAVEZ WILL HONOR VENEZUELA'S FOREIGN DEBT. HE ONLY WANTS TO RENEGOTIATE THE PAYMENT OF THE LARGE AMOUNT OF DEBT WHICH COMES DUE IN THE EARLY YEARS OF HIS GOVERNMENT.

-- CHAVEZ WILL HONOR FOREIGN CONTRACTS IN THE OIL SECTOR.

-- CHAVEZ DOES NOT HAVE A PLAN TO SELL CITGO. HE ONLY MEANT TO SAY THAT IF HE HAD TO SELL PART OF PDVSA, HE WOULD SELL CITGO BECAUSE CITGO HAS THE LOWEST RETURN ON PROFITS.

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-- CHAVEZ SUPPORTS PRIVATIZATION, BUT NOT AT ANY PRICE. FOR
INSTANCE, IT DOES NOT MAKE SENSE TO SELL THE ALUMINUM SECTOR WHEN
THE SECTOR IS IN SUCH BAD SHAPE. IT WOULD BE BETTER TO SELL THE
SECTOR LATER WHEN IT WOULD FETCH A BETTER PRICE.

COMMENT

10. (C)



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ACTION ARA-01

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 TO SECSTATE WASHDC 1775
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 USIA WASHDC 1791

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